

**FORESTVILLE WATER DISTRICT
AND
SEWER SERVICE ZONE**

Independent Auditor's Report
and Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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Independent Auditors' Report

To the Board of Directors
Forestville Water District and Sewer Service Zone
Forestville, California

We have audited the accompanying basic financial statements of the business-type activities of the **Forestville Water District and Sewer Service Zone** (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2014, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the budgetary comparison information, found on pages 20-21, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has elected to omit the management's discussion and analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying information, listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District.

Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion on it or provide any assurance on it.

A handwritten signature in blue ink that reads "PEELS SOPER LLP". The signature is written in a cursive, stylized font.

June 9, 2015

Basic Financial Statements

Forestville Water District and Sewer Service Zone

Statement of Net Position

June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets			
Cash	\$ 418,383	\$ 520,177	\$ 938,560
Investment in Sonoma County pooled investment fund	682,690	181,567	864,257
Certificates of deposit	654,290	140,000	794,290
Trade receivables	142,499	28,082	170,581
Other receivable	17,131	-	17,131
Inventory	8,243	32,400	40,643
Prepaid expenses	7,247	-	7,247
Total current assets	1,930,483	902,226	2,832,709
Noncurrent assets			
Capital assets (net of accumulated depreciation):			
Land	46,880	5,900	52,780
Utility plant	498,653	5,248,408	5,747,061
Office equipment	-	-	-
Tools and service equipment	8,115	-	8,115
Transportation equipment	1,126	-	1,126
Total capital assets	554,774	5,254,308	5,809,082
Other assets	-	4,244	4,244
Total noncurrent assets	554,774	5,258,552	5,813,326
Total assets	\$ 2,485,257	\$ 6,160,778	\$ 8,646,035

See accompanying Notes to Basic Financial Statements

Forestville Water District and Sewer Service Zone

Statement of Net Position (continued)

June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 43,285	\$ 54,231	\$ 97,516
Accrued interest payable to other governments	-	53,719	53,719
Customer deposits	225	-	225
Due to other governments	-	39,800	39,800
Total current liabilities	43,510	147,750	191,260
Noncurrent liabilities			
Compensated absences	30,574	-	30,574
Due to other governments	-	2,454,200	2,454,200
Total noncurrent liabilities	30,574	2,454,200	2,484,774
Total liabilities	74,084	2,601,950	2,676,034
Net Position			
Invested in capital assets, net of related debt	554,774	2,706,589	3,261,363
Restricted for:			
Capital outlay	495,589	-	495,589
Connection fees	641,102	435,528	1,076,630
Unrestricted	719,708	416,711	1,136,419
Total net position	\$ 2,411,173	\$ 3,558,828	\$ 5,970,001

See accompanying Notes to Basic Financial Statements

Forestville Water District and Sewer Service Zone

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	\$ 749,964	\$ 824,835	\$ 1,574,799
Connection fees	4,200	9,661	13,861
Total operating revenues	754,164	834,496	1,588,660
Operating expenses			
Sources of supply	281,784	-	281,784
Water transmission and distribution	313,246	-	313,246
Collection, treatment and disposal	-	547,527	547,527
Administrative and general	238,462	73,854	312,316
Depreciation and amortization	34,639	284,601	319,240
Total operating expenses	868,131	905,982	1,774,113
Operating loss	(113,967)	(71,486)	(185,453)
Nonoperating revenues (expenses)			
Taxes and assessments	133,667	-	133,667
Investment earnings	7,906	4,711	12,617
Interest expense	-	(125,210)	(125,210)
Disposal of assets	-	-	-
Total nonoperating revenues (expenses)	141,573	(120,499)	21,074
Income (loss) before transfer of capital	27,606	(191,985)	(164,379)
Transfer of capital	(24,634)	-	(24,634)
Increase (decrease) in net position	2,972	(191,985)	(189,013)
Net position at beginning of year	2,408,201	3,750,813	6,159,014
Net position at end of year	\$ 2,411,173	\$ 3,558,828	\$ 5,970,001

See accompanying Notes to Basic Financial Statements

Forestville Water District and Sewer Service Zone

Statement of Cash Flows

Year Ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities			
Cash received from customers	\$ 779,421	\$ 854,955	\$ 1,634,376
Cash payments to suppliers for goods and services	(533,451)	(498,770)	(1,032,221)
Cash payments to employees for services	(392,431)	(116,658)	(509,089)
Net cash (used in) provided by operating activities	(146,461)	239,527	93,066
Cash flows from noncapital financing activities			
Cash received from tax proceeds and assessments	133,667	-	133,667
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(11,803)	(23,350)	(35,153)
Principal payments - other governments	-	(37,700)	(37,700)
Interest payments - other governments	-	(125,210)	(125,210)
Net cash used in capital and related financing activities	(11,803)	(186,260)	(198,063)
Cash flows from investing activities			
Redemptions (purchases) of certificates of deposit	(52,588)	5,000	(47,588)
Interest received on investments	7,906	4,711	12,617
Net cash provided by (used in) investing activities	(44,682)	9,711	(34,971)
Net increase (decrease) in cash and cash equivalents	(69,279)	62,978	(6,301)
Cash and cash equivalents at beginning of year	1,170,352	638,766	1,809,118
Cash and cash equivalents at end of year	\$ 1,101,073	\$ 701,744	\$ 1,802,817
Cash and cash equivalents at end of year consists of:			
Cash	\$ 418,383	\$ 520,177	\$ 938,560
Investment in Sonoma County pooled investment fund	682,690	181,567	864,257
	\$ 1,101,073	\$ 701,744	\$ 1,802,817

See accompanying Notes to Basic Financial Statements

Forestville Water District and Sewer Service Zone

Statement of Cash Flows (continued)

Year Ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Reconciliation of operating loss to net cash provided by operating activities			
Operating loss	\$ (113,967)	\$ (71,486)	\$ (185,453)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	34,639	284,601	319,240
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	34,257	20,459	54,716
Decrease (increase) in other receivables	(16,514)	10,252	(6,262)
Decrease (increase) in inventory	229	(32,400)	(32,171)
Decrease in prepaid expenses	-	-	-
Decrease in accounts payable and accrued expenses	(78,555)	28,101	(50,454)
Increase in compensated absences	2,450	-	2,450
Decrease in customer deposits	(9,000)	-	(9,000)
Net cash provided by (used in) operating activities	\$ (146,461)	\$ 239,527	\$ 93,066

See accompanying Notes to Basic Financial Statements

Note A. Defining the Financial Reporting Entity

The Forestville Water District and Sewer Service Zone (the “District”) was established to serve as a special district in the Forestville area of the County of Sonoma (the “County”). The District’s original purpose was to supply water to residential and commercial users, and provide for connections to and the servicing of the delivery system.

Effective July 1, 2004, the District assumed the management responsibilities of the Forestville Sanitation District from the Sonoma County Water Agency (the “SCWA”). In connection therewith, the District became responsible for maintaining and operating the sanitation and collection system and treatment plant which provide sanitation services to residential and commercial users. The District also assists in providing for connections to the system.

Note B. Summary of Significant Accounting Policies*Government-wide basic financial statements*

The government-wide basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) display information on the District as a whole. These financial statements include the financial activities of the District’s nonfiduciary, business-type activities. The District does not have any activities that are considered government-type or fiduciary activities.

In the government-wide statement of net position, the business-type activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net position is reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of the District’s business-type activities. The government-wide focus is more on the sustainability of the District as an entity and the change in the District’s net position resulting from the current year’s activities.

Measurement focus, basis of accounting, and financial statement presentation

The District uses a proprietary (enterprise) fund to account for its activities. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of net revenues.

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The District’s activities are presented on the accrual basis of accounting.

Note B. Summary of Significant Accounting Policies (continued)*Measurement focus, basis of accounting, and financial statement presentation* (continued)

Property taxes are reported in the period for which they are levied. Other nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

The District has elected under Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989, unless those pronouncements conflict with or contradict GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes generally accepted accounting principles (GAAP) for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for water sales and sanitation service. Operating expenses for the District include expenses related to the purchase and transmission of water; collection, treatment and disposal of waste; administrative expenses; and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted net assets are available, restricted resources are used only when agreed to by a majority vote of the Board of Directors.

Cash and investments

The District applies the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net position and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

For the purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Trade receivables

Trade receivables consist primarily of uncollected fees for services and flat charges which are established annually and billed through the County of Sonoma's property tax system. Trade receivables are reported at the amount management expects to collect from outstanding balances. The District has established an allowance for doubtful trade receivables based upon factors pertaining to credit risk of specific customers, historical trends, and other information. Delinquent accounts are written off when it is determined that the amounts are uncollectible. As of June 30, 2014, the allowance for doubtful trade receivables amounted to \$2,071.

Note B. Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of materials and supplies and is stated at the lower of cost or market determined by the first-in, first-out method.

Other assets

Other assets consist of a deferred charge of \$4,244 from the retirement of a 1995 revenue bond, net of accumulated amortization in the amount of \$21,219. These costs are amortized using a method which approximates the interest rate method over the term of the related long-term debt. Amortization expense for the year ended June 30, 2014 amounted to \$2,122. Amortization expense for the next two years amounts to \$2,122 per year.

Restricted assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain debt service payments and improvements and extensions to the water distribution system and the wastewater treatment system.

Capital assets

Capital assets are stated at cost or estimated historical cost. Costs incurred in construction and installation of capital assets, which benefit future periods, are capitalized. Depreciation is charged as an expense of operations and is based on the estimated useful lives of the assets using the straight-line method as follows:

Utility plant	5 - 50 years
Office equipment	5 - 10 years
Tools and service equipment	10 years
Transportation equipment	5 - 10 years

The costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are expensed as incurred.

Compensated absences

The District's employees are entitled to certain compensated absences based on their length of employment. Employees may accumulate earned vacation benefits that can be accrued up to a maximum of 160 to 400 hours per employee based on years of service. Terminated employees are entitled to full payment of unused vacation benefits. Employees may also accumulate sick leave with a maximum accumulated time of 960 hours. The District does not reimburse employees for unused sick leave upon termination; however, sick leave may be utilized towards an employee's longevity factor under his or her retirement, pursuant the requirements of the California Public Employees Retirement System ("PERS").

Note B. Summary of Significant Accounting Policies (continued)*Compensated absences (continued)*

A liability is calculated for all of the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary rates and related payroll costs are those in effect at June 30, 2014. Compensated absences are recorded as an expense when the benefit is earned and the liability is recorded.

Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors, laws or regulation of other governments or restrictions imposed by the Board of Directors.

Restricted assets represent cash, investments and receivables maintained in accordance with resolutions and formal actions of the Board of Directors for the purpose of funding certain improvements, repairs, and extensions of the water and sewer systems and funding debt service payments.

Budget and budgetary accounting

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year. The general manager of the District is authorized to transfer budgeted amounts within the District except for transfers between major expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the Board of Directors

Property taxes

Property taxes, including tax rates, are regulated by the State of California and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the District.

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available.

Note B. Summary of Significant Accounting Policies (continued)

Property taxes (continued)

Sonoma County assesses properties and collects secured property taxes as follows:

Lien date	January 1	
Assessment date	July 1	
Due dates	November 1	(50%)
	February 1	(50%)
Delinquent dates	December 10	
	April 10	

Real property taxes are reported as “nonoperating” revenue under governmental accounting and financial reporting principles since they are not directly related to the sale of water. However, the property taxes collected by the District are designed to assist the District in recovering operating costs associated with fire protection and the provision of readily available water service to the entire District. Those costs are included in the operating expenses.

Charges for sewer service are levied and collected through Sonoma County property tax rolls. The amounts collected are reported as “charges for services” revenue under the governmental accounting and financial reporting principles since they are directly related to the collection, treatment and disposal of waste.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note C. Cash and Investments

In accordance with California Governmental Code Section 53630, the District’s investment policy authorizes investments only in savings accounts or certificates of deposit with federally insured financial institutions, or through the Sonoma County pooled investment fund (the “Pool”).

Note C. Cash and Investments (continued)

Pooled Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the County Board of Supervisors. The objectives of the policy are, in order of priority: 1) safety of capital, 2) liquidity and 3) maximum rate of return. The policy addresses the soundness of financial institutions in which the Treasurer will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and federal agency securities
- Bonds issued by local agencies
- Registered State warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local agency investment fund (State pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County investment policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Statement of Net Position

A reconciliation of cash and investments shown on the accompanying statement of net position is as follows:

	Cost	Fair Value
Cash	\$ 938,560	\$ 938,560
Investment in Sonoma County pooled investment fund	861,503	864,257
Certificates of deposit	794,290	794,290
	\$ 2,594,353	\$ 2,597,107

As of June 30, 2014, the District's investments consisted of \$864,257 in the Pool managed by the County Treasurer, which carry a weighted average maturity of approximately one year. The net increase in the fair value of the District's investment in the Pool during fiscal year ended June 30, 2014 was \$2,754. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year end amounted to \$1,481. There were no investments that matured during the fiscal year; therefore, no realized gains or losses were recorded.

Note C. Cash and Investments (continued)*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity, evenly over time, as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2014, all certificates of deposit have a remaining maturity date of 12 months or less.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The District's investments at June 30, 2014, are categorized to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the District's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

At June 30, 2014, all of the District's investments are in pools managed by other governments and are therefore not subject to categorization.

Cash and certificates of deposit with fiscal agents are collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the District. Funds are available for their designated purpose on short notice.

Concentration of Credit Risk

At various times during the year ended June 30, 2014, the District had on deposit with financial institutions amounts in excess of the \$250,000 Federal Deposit Insurance Corporation limit ("FDIC"). As of June 30, 2014 the District had amounts on hand in financial institutions in excess of the FDIC limit which are fully collateralized by agreement with the financial institution.

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note D. Capital Assets

Capital assets at June 30, 2014, consist of the following:

	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 52,780	\$ -	\$ -	\$ 52,780
Capital assets, being depreciated:				
Utility plant	10,815,616	35,153	-	10,850,769
Office equipment	43,470	-	-	43,470
Tools and service equipment	43,446	-	-	43,446
Transportation equipment	52,586	-	-	52,586
Total capital assets being depreciated	10,955,118	35,153	-	10,990,271
Less accumulated depreciation for:				
Utility plant	4,789,952	313,758	-	5,103,710
Office equipment	43,445	25	-	43,470
Tools and service equipment	34,249	1,082	-	35,331
Transportation equipment	49,205	2,253	-	51,458
Total accumulated depreciation	4,916,851	317,118	-	5,233,969
Total capital assets, being depreciated, net	6,038,267	(281,965)	-	5,756,302
Total capital assets, net	\$ 6,091,047	\$ (281,965)	\$ -	\$ 5,809,082

Depreciation expense amounted to \$317,118 for the year.

Note E. Line of Credit

On September 11, 2012, the Board of Directors authorized a line of credit of up to \$250,000 from the water system reserves to fund the sewer system's contract for removal of bio solids from the holding pond. The line of credit bears interest 2.5% per annum and is due in equal monthly installments over 10 years, commencing on the date of first draw of funds. As of June 30, 2014 there were no funds disbursed.

Notes to Basic Financial Statements

Year Ended June 30, 2014

Note F. Due to Other Governments

During the fiscal year ended June 30, 2002, the District received a loan from the United States Department of Agriculture (“USDA”) to help fund an upgrade of its wastewater treatment plant. This upgrade was necessary to comply with the North Coast Regional Water Quality Control Board’s Basin Plan for the Russian River. As of June 30, 2014, the District had received \$2,838,300 from the USDA and has a remaining payable of \$2,531,700. The loan currently calls for semiannual payments of approximately \$81,500. The expected term is 40 years at annual interest rates ranging from 4.75% to 5.00% with the last payment scheduled for February 2042.

Annual debt service requirements for the next five years and in the aggregate for amounts due to other governments are as follows:

	Principal	Interest
Year ending June 30,		
2015	\$ 39,800	\$ 124,271
2016	42,000	122,288
2017	44,300	120,196
2018	46,700	117,989
2019	49,200	115,639
Thereafter	2,272,000	1,616,131
	\$ 2,494,000	\$ 2,216,514

Note G. Employees’ Retirement Plan

Plan description

The District contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California. Benefit provisions and all other requirements are established by state statute and District ordinance. Copies of PERS’ annual financial report may be obtained from its executive office: 400 Q Street, Sacramento, California 95811.

Funding policy

Employees are not required to contribute. The District makes all contributions required of employees on their behalf. Generally, the District is required to contribute at an actuarially determined rate of annual covered payroll. The actuarial determined contribution rate for the year ended June 30, 2014, was 16.801%. PERS determined that the District’s required contribution rate for the years ending June 30, 2015 and June 30, 2016, will be 10.298% and 10.9%, respectively. The contribution requirements of plan members and the District are established and may be amended by PERS.

Note G. Employees' Retirement Plan (continued)

Annual pension cost

For 2014, the District made required contributions to PERS in the amount of \$87,031. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected annual salary increases of 3.30% to 14.20% that vary by age, service, and type of employment, (c) 2.75% for inflation adjustments, and (d) 3.0% payroll growth. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was 20 years.

Trend information

Three-year trend information for PERS (in thousands):

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 52	100%	-
June 30, 2013	\$ 71	100%	-
June 30, 2014	\$ 87	100%	-

Schedule of funding progress for PERS:

Actuarial Valuation Date	Entry Age Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Funded) Unfunded AAL (UAAL)	Funded Status	Annual Covered Payroll	UAAL as % of Payroll
June 30, 2011	946,220	1,273,296	327,076	74.3%	196,206	166.7%
June 30, 2012	919,795	1,310,270	390,475	70.2%	153,266	254.8%
June 30, 2013	1,035,597	1,390,653	355,056	74.5%	329,913	107.6%

Note H. Commitments and Contingencies*Mirabel Heights Special Assessment District – Water*

The annexation and formation of the Mirabel Heights special assessment district was completed September 1, 1979. The District received a grant of \$346,700 from the Farmers Home Administration for the construction of new facilities for this area, and special assessment bonds in the amount of \$125,500 were issued by the District to pay the remainder of these costs. Interest is payable semi-annually at the rate of 5% per annum on the bonds which mature serially through 2019. These bonds are paid by the individual property owners through special assessments and are therefore, not reported as liabilities of the District. The County of Sonoma, through the Treasurer's office, collects the assessments and services the debt. The District is contingently liable in the event that individual property assessments are not collected. The principal balance due on the special assessment bonds at June 30, 2014, amounted to \$30,000. As of June 30, 2014, certain individual property owners were delinquent in paying their respective assessments under the terms of the bond repayment in amounts totaling \$719, including interest and penalties.

Mirabel Heights Special Assessment District – Sewer

Bonded indebtedness of \$1,762,400 was incurred in 1999 for the construction of the Mirabel Heights Water Pollution Control Project (the "Project"). The Project consists of a collection system allowing for the delivery of wastewater for treatment and disposal. Interest is payable semi-annually at a rate of 4.75% per annum on the bonds which mature serially through 2038. These bonds are paid by the individual property owners through special assessments and are therefore, not reported as liabilities of the District. The County of Sonoma, through the Treasurer's office, collects the assessments and services the debt. The District is contingently liable in the event that individual property assessments are not collected. The principal balance due on the special assessment bonds at June 30, 2014, amounted to \$1,397,200. As of June 30, 2014, certain individual property owners were delinquent in paying their respective assessments under the terms of the bond repayment in amounts totaling \$15,036, including interest and penalties.

Note I. New Accounting Pronouncements

Management has evaluated new accounting pronouncements and determined that GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27* ("GASB 68") will have an impact on the District's basic financial statements. The provisions of this statement are required to be implemented in fiscal year 2015. The statement provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net assets available for paying benefits, there is a net pension liability.

Note I. New Accounting Pronouncements (continued)

Governments will now be required to report that amount as a liability in their basic financial statements. In addition, GASB 68 required that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

Note J. Subsequent Events

In accordance with FASB Accounting Standards Codification Topic 855, *Subsequent Events*, the District has evaluated subsequent events through June 9, 2015, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

Supplementary Information

**Forestville Water District and Sewer Service Zone
Statement of Revenues, Expenses and Changes in Net Position
Budget and Actual - Enterprise Funds**

Year Ended June 30, 2014

	Water			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note B	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating revenues				
Charges for services	\$ 738,956	\$ 738,956	\$ 749,964	\$ 11,008
Connection fees	-	-	4,200	4,200
Total operating revenues	738,956	738,956	754,164	15,208
Operating expenses				
Sources of supply	279,645	279,645	281,784	(2,139)
Water transmission and distribution	343,809	343,809	313,246	30,563
Administrative and general	244,147	244,147	238,462	5,685
Depreciation and amortization	-	-	34,639	(34,639)
Total operating expenses	867,601	867,601	868,131	(530)
Nonoperating revenues (expenses)				
Taxes and assessments	121,200	121,200	133,667	12,467
Investment earnings	7,050	7,050	7,906	856
Transfer of capital	-	-	(24,634)	(24,634)
Total nonoperating revenues	128,250	128,250	116,939	(11,311)
Excess (deficiency) of revenue and other financing sources over expenses	(395)	(395)	2,972	<u>\$ 3,367</u>
Net position at beginning of year	1,444,183	1,444,183	2,408,201	
Net position at end of year	\$ 1,443,788	\$ 1,443,788	\$ 2,411,173	

**Forestville Water District and Sewer Service Zone
Statement of Revenues, Expenses and Changes in Net Position
Budget and Actual - Enterprise Funds**

Year Ended June 30, 2014

	Sewer			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) See Note B	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating revenues				
Charges for services	\$ 821,970	\$ 821,970	\$ 824,835	\$ 2,865
Connection fees	-	-	9,661	9,661
Total operating revenues	821,970	821,970	834,496	12,526
Operating expenses				
Collection, treatment and disposal	551,686	551,686	547,527	4,159
Administrative and general	108,375	108,375	73,854	34,521
Depreciation and amortization	(15,000)	(15,000)	284,601	(299,601)
Total operating expenses	645,061	645,061	905,982	(260,921)
Nonoperating revenues (expenses)				
Investment earnings	2,000	2,000	4,711	2,711
Interest expense	(125,195)	(125,195)	(125,210)	(15)
Disposal of assets	-	-	-	-
Principal retirement of debt	(37,700)	(37,700)	-	37,700
Capital outlay	-	-	-	-
Reserve for contingencies	(15,000)	(15,000)	-	15,000
Total nonoperating expenses	(175,895)	(175,895)	(120,499)	55,396
Excess (deficiency) of revenue and other financing sources over expenses	1,014	1,014	(191,985)	<u>\$ (192,999)</u>
Net position at beginning of year	4,199,852	4,199,852	3,750,813	
Net position at end of year	\$ 4,200,866	\$ 4,200,866	\$ 3,558,828	

Forestville Water District and Sewer Service Zone

Board of Directors

June 30, 2014

4-Year Term Expires

- | | | |
|----|--|---------------|
| 1. | Kenneth A. Jones - Chair
6130 Anderson Road
Forestville, California
524-4850 | December 2015 |
| 2. | Steven Bandettini - Vice Chair
7350 Hidden Lake Road
Forestville, California
887-2109 | December 2017 |
| 3. | Richard Benyo
7050 Giusti Road
Forestville, California
887-0320 | December 2015 |
| 4. | Gary Harris
6095 Anderson Road
Forestville, CA 95436
887-7595 | December 2017 |
| 5. | Don Reha
5809 Orchard Lane
Forestville, California
820-1272 | December 2015 |

The audit of the Forestville Water District and Sewer Service Zone as of and for the year ended June 30, 2014, was authorized by the Board of Directors of the District.